Report-in-Brief

The Socioeconomic Impact of Credit Programs on Rural Women: A Study in Carchi, Ecuador

Fundación de la Mujer Campesina (FUNDELAM)

As in many parts of the world, farmers in rural Ecuador have difficulty obtaining credit for productive activities or to cover basic needs. The formal financial system does not generally lend to this sector of the population, whose transactions tend to be small and high-risk. The farmers are more likely to resort to friends, family members, community organizations, or moneylenders. Women's access to credit in rural areas is restricted even more by gender-biased lending practices. Women are frequently the heads of households, or acting in that capacity due to a high level of male migration to urban labor markets; nevertheless, only 19 percent of rural women are considered part of the economically active population.[1]

A lack of resources to provide for the needs of their families compels many women to turn to the network of informal agents, primarily usurers. Overdue loans are routinely extended as borrowers struggle to make exorbitant interest payments. As a result, women frequently become mired in a vicious cycle of indebtedness and poverty. In recent years, a number of Ecuadorean private agencies and nongovernmental organizations (NGOs)—committed to promoting higher incomes and employment and reducing unequal power relationships within families—have established credit programs for poor rural women. Administered through savings clubs, rural cooperatives, and credit associations, these programs have been designed to enable women to accumulate emergency reserves by saving. They are also able to obtain credit on favorable terms for agricultural activities and small businesses. Participating women are from 20-50 years of age.

In spite of numerous experiences with rural credit programs in Ecuador, little is known about their influence on the lives of participants. From 1997-99, the Fundación de la Mujer Campesina (FUNDELAM) ("Association for Rural Women") therefore conducted a study to evaluate the impact of its credit program on rural women in the Carchi province, one of the areas where it has provided credit, training, and technical assistance to women since 1991. This brief summarizes the principal findings of the study.

Objectives

The project's overarching goal was to determine the long-term impacts of FUNDELAM's credit program on socioeconomic conditions among rural women and their families. The project's specific objectives were to:

- Determine the extent to which the credit increased the incomes and paid employment rates of women and their families;
- Understand the nature and extent of women's productive activities resulting from the credit allocations;
- Learn about the positive and negative effects on women's savings rates;
- Determine the effect of FUNDELAM's credit program on the nutrition, education, health, and housing of women and their families;
- Evaluate FUNDELAM's credit program and propose necessary changes.

[1] Based on a FUNDELAM study of illiteracy and rural women, 1995.

The Intervention

To analyze the effect of its credit program, FUNDELAM undertook a baseline survey of the population being served. The sample included 70 women who had received credit for at least twelve months over a two-year period and 70 new participants. Data was collected on income, assets, savings, expenses, nutrition, health, living conditions, and participation in decisionmaking in both the household and the community.

The results of the first phase of the study revealed that the effects of microcredit on the quality of life of the families studied were less pronounced than had been expected. The project design was therefore modified to include the following steps in the second phase of the project:

- Conduct a financial analysis of FUNDELAM's own credit program and the operations of the 11 credit associations it supports,[2] identifying the conditions necessary to guarantee viability and sustainability;
- Document the "credit association model" in order to facilitate replication of the experience in other rural areas;
- Conduct training workshops and nutritional interventions to help women increase their knowledge about productive activities and improve their quality of life.

In the final phase of the study, qualitative, quantitative, and financial data were collected and analyzed, and the results were disseminated to the survey participants at a series of workshops. Further, board members from all of the credit associations came together to devise solutions to the most urgent problems uncovered during the research. Additionally, the project organized training and skill-building workshops in credit, management, nutrition, and health.

Results

Impact of Credit on Women and their Families

The study revealed that there was in fact a relationship between credit and family income, although a direct correlation could not be confirmed. Given the precarious and constantly deteriorating incomes within households, the small amount of financial assistance that the loans provided was not sufficient to generate a sustained process of capitalization. However, this credit did enable women to finance part of the cost of productive activities, in particular agricultural activities, which, in turn, generated additional income and cushioned households from an overall worsening of socioeconomic status.

In quantitative terms, the research found that participation in the credit program produced positive changes, including with regard to the percentage of women with paid employment and the nutritional, health, and housing conditions of families. In sum, the situation of women who received credit improved in the short term, though access did not assure sustained longer-term changes. Reasons for the latter included (as mentioned above) the small amount of the loans, irregularities in their distribution, and their use for purposes other than those for which they were intended.

In qualitative terms, the effects of credit were more apparent. Credit provided a reason for women to organize themselves—first informally in savings clubs and later more officially in credit associations. Women who participated in the program went through a learning process that strengthened their leadership and organizational skills. Other qualitative changes observed were improvements in the women's sense of self-worth. Program participants reported being more conscious of their value as individuals and of the importance of their role in the home, the organization, and the community. In addition, women's increased financial acuity prompted favorable changes in male partners' attitudes and level of respect. For example, members of the credit associations were able to purchase inputs, livestock, and vaccinations that helped them improve animal husbandry, a change that was appreciated by men as a positive contribution of women to the household economy.

[2] In a community-managed savings association, the sponsoring agency (e.g., FUNDELAM) lends seed capital to a credit association, which in turn lends it to members. The association also provides technical assistance and technical and organizational training to its members and governing committee. All members sign a loan agreement on the amount in the "external account" and agree to repay the sponsoring agency with interest at the end of the designated period (e.g., 16 weeks). Members' savings stay in the "internal account" and are used to finance new loans or collective income-generating activities under terms and conditions determined by those members.

A series of dissemination workshops were held with 235 members of the credit program in the province of Carchi. The principal goals were to discuss the analysis, verify the information, solicit participants' feedback, conduct self-evaluations in each of the credit associations, and develop conclusions and action plans to strengthen management. Important outcomes included a stronger organizational structure that grouped nine credit associations together, enabling a possible transition to a more formalized community bank in the future, as well as a clear commitment to establishing a regional credit association network.

Financial Analysis of FUNDELAM's Credit Program

The results of the analysis of FUNDELAM's management revealed that, in the past year, the program lost capital in part because of its subsidization of interest rates, and in part because of the program's operating costs. Necessary corrective measures include setting positive interest rates, applying fines on overdue loan payments, and reducing the risk of losses through better analysis of the qualifications of borrowers. FUNDELAM should also seek other sources of funding in order to capitalize the organization and should charge for the complementary services it provides.

Evaluation of the "Credit Association Model"

The study found that FUNDELAM's own programs had not been sufficient to sever women's ties to exploitative, informal moneylenders, although it had contributed to lessening their dependence on them. Specific evaluation of the credit associations' internal financial management found that a number of records from earlier periods were missing, making it difficult to reconstruct financial transactions. A number of common problems were discovered that should be avoided in the management of the funds, including high arrears, the absence of loan due dates, the lack of a uniform procedure to calculate interest, and the practice of making payments against principal without having first paid interest. The practice of granting extensions or new loans before previous ones had been paid off was also common.

In addition, the study revealed vast differences in the levels of autonomy and skill among leaders of the credit associations with regard to the administration of credit programs. This was attributable to factors such as the amount of time the association had been in existence, its internal governance, and relationships among members and between the leadership and the members. The number of members, their previous experience with credit, and the educational level of board members, particularly treasurers, also played a role. Finally, data on the functioning of the credit associations was collected and organized in order to produce a collection of lessons learned for the establishment and operation of such associations, as well as the statutes, rules, and other operating instruments. It is hoped that this documentation will assist in the establishment of rural microcredit programs throughout Ecuador.

Training Workshops and Nutrition Education

The lack of availability of capacity-building opportunities in rural Ecuador is an area demanding urgent attention. In response, the project incorporated training to strengthen participants' basic skills in improving their productive activities. For instance, workshops were held to train women in credit management and accounting. In addition, an anthropometric study of children under five years of age of credit program members prompted efforts to support families with malnourished children, specifically through the distribution of nutritional supplements. Further, a nutrition education campaign of 40 workshops for 235 members included both practical and theoretical sessions on nutrition and health, as well as the planting of family vegetable plots. FUNDELAM also enlisted the assistance of municipal authorities to gain regular access to community medical and dental care and health education for the rural population in Carchi.

Conclusions

FUNDELAM's efforts over time have led to a growth in the membership of credit associations. Because these groups require borrowers to save, participating women have gained positive saving habits. The research underscored that credit programs can be part of a poverty-reducing strategy when they are included in an integrated development model along with other, complementary services. The findings were valuable in contributing answers to a number of the concerns faced by FUNDELAM and other community organizations providing microcredit to rural Ecuadorean women. Pointing out pitfalls in this process will help others avoid errors when replicating the credit association model and seeking to enhance the socioeconomic conditions of women and their families.

Recommendations and Lessons Learned

The following recommendations emerged from the analysis of the study and the interventions:

► **Provide specialized training for credit association staff.** Financial intervention demands specialized knowledge in accounting and management. FUNDELAM should at the very least emphasize training and provide technical assistance in bookkeeping for those charged with supervising credit programs in order to ensure accurate handling of accounts, documents, and credit records.

► **Encourage voluntary savings.** The obligatory savings model that sustained FUNDELAM at the beginning of its credit program should be replaced by one that encourages spontaneous, regular deposits from participants, however small the amount. Once credit associations are able to operate independently, these savings will be very important for the sustainability of the internal credit fund. To encourage savings, credit associations should offer safeguards, including guarantees of immediate access to funds and the earning of interest on deposits.

The following lessons have implications for future work in this area:

► **Continuous monitoring by the association's governing committee is crucial.** The structure and function of credit associations requires continuous qualitative and financial monitoring and evaluation. Opportune decisions should be made to set community-based savings organizations on a course towards autonomous functioning. These groups should be governed by both an assembly of members and a board of directors that executes collective decisions. Democratic practices and the active participation of members should be encouraged through committees.

► **Priorities of NGOs must be clear.** From an institutional perspective, credit-providing NGOs (such as FUNDELAM) should clearly define their social and economic priorities within the framework of their mission. They should establish their responsibilities and limitations in the area of financial intermediation, taking care to ensure their own viability and sustainability during the process of establishing credit associations. When the credit terms of external financial institutions are too rigid, the decision-making autonomy of recipients is restricted. NGOs that finance microcredit programs should obtain external financing on terms that allow them sufficient flexibility.

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